EUB Alberta Energy and Utilities Board

Alberta Energy and Utilities Board
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October 1996

To: All Oil, Gas and Oil Sands Operators

1995/96 ABANDONMENT FUND ANNUAL REPORT

Enclosed is a copy of the 1995/96 annual report for the Abandonment Fund as approved by the Fund Advisory Committee (FAC). The Abandonment Fund, which is funded by a levy on inactive wells, is a key component of province's program to identify and abandon existing orphan wells and to prevent future occurrences.

The report is straight forward, and is intended to communicate key events, activities, and areas of expenditure. Questions or comments regarding the report may be directed to Mr. Bob Willard, Corporate Compliance Group Leader, EUB Facilities Division, at (403) 297-8572.

Yours truly,

signed by

C. Bélanger
Chair, EUB

D. J. Manning, Q.C.
President, CAPP

Paul Gagnon
Chairman, SEPAC

1995/96 Abandonment Fund Annual Report

October 21 1996

1995/96 ABANDONMENT FUND ANNUAL REPORT

Executive Summary

On behalf of the EUB, as Fund Manager for the Abandonment Fund, I am pleased to present the following summary information. Fiscal 1995/96 represents the fourth year of operation of the Fund. Although discussions to expand the scope of the Fund continue, during fiscal 1995/96 it remained restricted to direct costs for the abandonment of orphan wells (excluding reclamation activities), plus cost recovery activities. Fund administration and general administrative functions related to Fund protection are provided by EUB staff.

Summary data related to the Fund are contained in the Appendices:

Appendix 1 : Key events of 1995/96 relating to EUB "public" and "Fund" protection activities
Figure 1. Well Licence Transfer Activity Data
Figure 2. Inactive Wells and Cased Hole Abandonments vs Time
Appendix 2 : Unaudited Financial Data
Schedule of Revenue and Expenditure
Schedule of Assets, Liabilities, and Fund Balance
Appendix 3 : List of wells for which expenditures were made during 1995/96
List of wells for which cost re-imbursements were made during 1995/96
List of Companies with Outstanding Balances for the 1995 Abandonment Fund Levy
Appendix 4 : Fund budget and objectives for the 1996/97 program

signed by
J. R. Nichol, P.Eng., Chairman
Fund Advisory Committee

Appendix 1 1995/96 ABANDONMENT FUND ANNUAL REPORT

Key Events of 1995/96

- Full production of a centralized Corporate Compliance Data System to proactively monitor the corporate status of EUB customers. The system is a tool to ensure compliance with EUB requirements and as a result protects the Fund.
- Broader use of EUB corporate compliance concepts resulted in increased useage of the EUB Abandonment Security Deposit System thereby improving overall Fund protection. Funds held on behalf of others at year end were some $1 135 000. About $240 000 was deposited for inactive wells with the remaider collected during the approval of well licence transfers.
- Continuing work by the Facility, Pipeline and Reclamation Subcommittee to explore expansion of the scope of the Abandonment Fund to include orphan facility and pipeline abandonments, and associated well, facility and pipeline reclamation .
- Completed surface reclamation pilot project for 2 orphan sites.
- Collection of some $1 501 473 by the annual levy on inactive wells.
- Issuance of 119 final "notices to pay" to companies not paying the abandonment levy by the deadline. 11 companies did not pay the levy by the year end. The amount owing totalled about $2400. Enforcement action was initiated with Closure Orders issued for the subject wells.

- Joint announcement by the EUB, CAPP and SEPAC of a program to be implemented in fiscal 1996/97 to review wells that have been suspended for more than 10 years. Alternatives available to reduce the number of inactive wells include: resume production, abandonment, transfer or submission of an abandonment security deposit in addition to compliance with the Suspended Well Guidelines.
- 284 companies (785 wells) reviewed by project to audit suspended wells of companies with a Well Screening Ratio (ratio of active to inactivewells) less than 0.5. Results were:
    - the submission of abandonment security deposits of approximately $240 000 for 24 wells;
    - transfer of 77 wells;
    - confirmed abandonment of 36 wells;
    - 31 wells resumed production;
    - 153 wells subject to inactive well reduction programs to ensure well screening ratios greater than one. (These programs are time dependant with non-compliance requiring submission of abandonment security deposits);
    - 55 companies (113 wells) turned over to Corporate Compliance for futher action;
    - 351 wells licensed to 75 companies dropped from the review because of "positive", company WSR changes or the purpose of the wells were outside the petroleum industry, ie pulp &paper, chemical, educational.

Estimated protection benefit to the Fund from project approximately $13.75 million, assuming $45 500 per abandonment avoided; excluding wells turned over to Corporate Compliance as well as those dropped from the review.

- Random audits of all inactive wells for compliance to the Suspended Well Guidelines commenced.
- Processed approximately 1325 well licence transfer applications; transferred 6442 well licences and changed 3971 well names.
- Corporate profile review and approval of 74 first-time licensee applications, including the collection of $740 000 first-time licensee fees. Review of approximately 250 updated corporate profiles.
- Issued 213 Closure Orders for various non-compliance issues; and 4 Abandonment Cost Orders to allow responsible parties to collect their costs.
- 285 Abandonment Orders (for 341 wells) issued for reasons ranging from the continuing review of companies no longer conducting business in Alberta (dead companies) (15wells); loss of right to produce (11 wells); inactive well audits (37 wells); recieverships/insolvencies (36 wells); and expired mineral rights (244 wells). Results were:
    - 136 abandoned wells
    - 61 wells transferred/minerals re-acquired.
    - 15 wells added to list of wells to be abandoned by the Fund.
    - 129 wells require further enforcement action, ie Abandonment Orders in breach, including 96 wells with mineral expiry orders.

Estimated protection benefit to the Fund from wells abandoned or transferred/minerals re- acquired approximately $8.96 million, assuming $45 500 per abandonment avoided. Estimated cost to the Fund from wells added to the list via the Abandonment Order process is approximately $0.68 million. The risk to the Fund from Abandonment Orders in breach is dependant upon the success of additional enforcement activities.

- Approval of 6 cost reimbursement applications totaling approximately $263 000. Average abandonment cost for wells subject to WIO claims was approximately $65 500.
- Presentation of 6 cases to the Peer Review Group; total of 28 orphan wells identified.
- Initiating or completing downhole abandonment operations at 41 orphan wells. Average abandonment cost was approximately $45 500.
- Providing ongoing care and custody at 7 orphan wells.

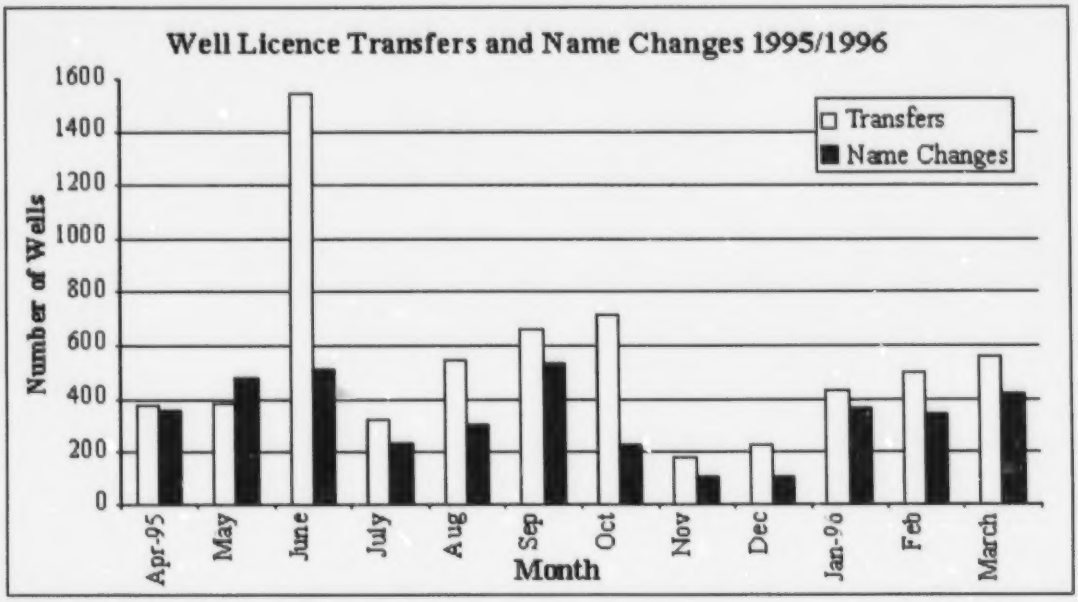

Figure 1 Well Licence Transfer Activity Data

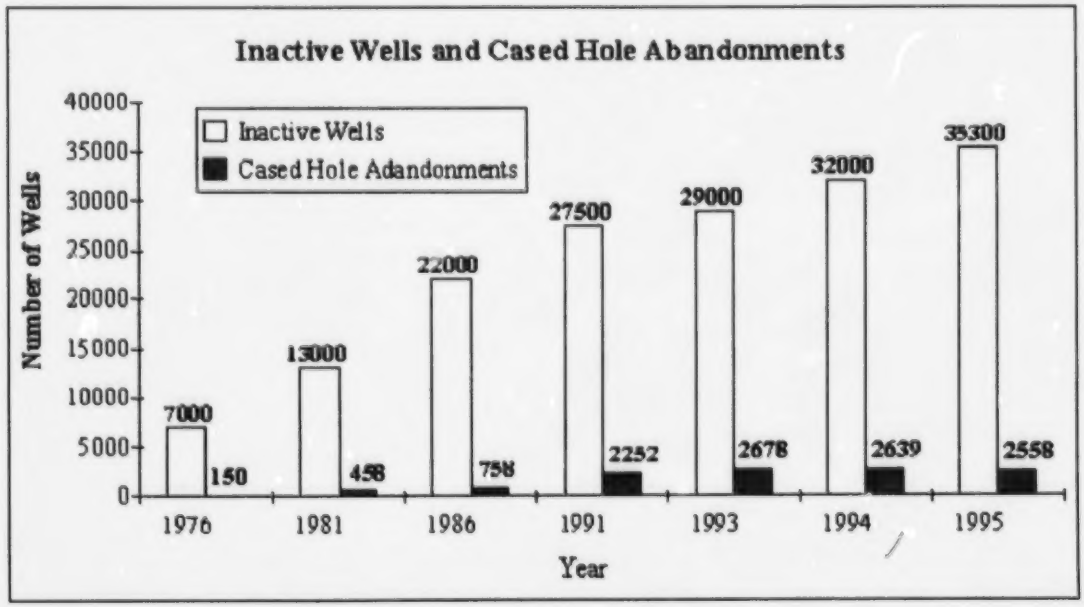

Figure 2 Inactive Wells and Cased Hole Abandonments vs Time

Appendix 2 1995/96 ABANDONMENT FUND ANNUAL REPORT

Financial Data

Abandonment Fund
Schedule of Revenue and Expenditure
for Year Ended 31 March 1996.

	UNAUDITED		
	1996		1995
	Actual	Budget	Actual
Operating Revenue:			
Industry Levy (Note 1)	$ 1,501,473	$ 1,740,000	$ 1,523,005
Applications and Licences (Note 2)	740,000	500,000	780,000
Equipment Sales (Note 3)	53,830	-	288,480
Working Interest Contributions (Note 4)	15,500	-	9,213
	2,310,803	2,240,000	2,600,698
Operating Expenditure:			
Abandonment Operations (Note 5):			
Well Abandonment (Note 6)	1,905,314	1,235,000	1,870,610
Well Site Reclamation	12,733	1,200,000	2,587
Pipeline/Facilities Abandonment	-	320,000	-
	1,918,047	2,755,000	1,873,197
Working Interest Claims (Note 7)	261,959	250,000	8,050
Professional Fees (Note 8)	39,645	220,000	54,344
Blowout Insurance (Note 9)	12,768	30,000	21,449
	2,232,419	3,255,000	1,957,040
Operating Profit (Note 10)	78,384	(1,015,000)	643,658

Other Revenue (Expenditure):			
Interest Revenue (Note 11)	276,983	-	188,533
Bad Debt Recovery (Expenditure) (Note 12)	6,770	(25,000)	44,835
Deposits Forfeited	-	-	95,453
Miscellaneous (Note 13)	(938)	-	(1,488)
Excess of Revenue Over Expenditure for the Year	361,199	(1,040,000)	970,991
Fund Balance at Beginning of Year	3,141,096	3,141,096	2,170,105
Fund Balance at End of Year	$ 3,502,295	$ 2,101,096	$ 3,141,096

Abandonment Fund
Schedule of Revenue and Expenditure
for Year Ended 31 March 1996.

NOTES:

1. $55 levy on some 27 300 wells including applicable penalties; Appendix 3 lists companies with outstanding 1995 levy balances.
2. 74 first time licensee fees.
3. Average salvage about $1314 per well.
4. Working interest contributions for wells licensed to Canadian Slovenia Oil and Gas Ltd. and Provedence Petro Inc.
5. Appendix 3 lists the wells for which expenditures were made during 1995/96. No Pipeline or Facility abandonments undertaken pending expansion of the Fund. Well site reclamation expenditures were for a 2 well pilot project.
6. Variance attributed to operational difficulties encountered including weather related costs for some operations. Overage amounts reallocated from funds budgetted for Wellsite Reclamation and Facility/Pipeline abandonments.
7. Appendix 3 lists wells for which WIO claims were made.
8. WIO search consultant. About half of the dead company files have been opened. More WIO searches planned for fiscal 97.
9. Only for wells undergoing abandonment operations.
10. A deficit budget was approved to maintain the Fund balance at approximately $2 million.
11. Fund equity interest at approximately 7%.
12. Adjustment to allowance for recieveables.
13. Includes Pipeline, Facility and Reclamation Subcommittee appreciation.

Abandonment Fund
Schedule of Assets, Liabilities, and Fund Balance

as at 31 March 1996

UNAUDITED

	1996	1995
ASSETS		
Cash and Short-Term Investments	$ 4,822,272	$ 3,529,721
Interest Receivable	64,898	52,854
	$ 4,887,170	$ 3,582,575
LIABILITIES AND FUND BALANCE		
Trade Payable	$ 199,304	$ 23,307
Holdback Payable	50,423	-
Funds Held on Behalf of Others	1,135,148	418,172
	1,384,875	441,479
Fund Balance	3,502,295	3,141,096
	$ 4,887,170	$ 3,582,575

Appendix 3 1994/95 ABANDONMENT FUND ANNUAL REPORT

List of Wells for which Expenditures were made during 1995/96

Well	Expense	Revenue	Net Cost
HOMESTEAD NO. 1	$225	$0	$225
PEACE RIVER (Relief Well) No. 1	$3,050	$0	$3,050
ALBERTA CLAY MEDHAT 15-29-12-5	$6,910	$0	$6,910
SULPETRO MANNVILLE 6-35-49-9	$5,163	$0	$5,163
MEDICINE HAT #33	$821	($780)	$41
ROGER JARVIE 7-15-63-2*	$8,932	$0	$8,932
CEGO JARVIE 10-35-62-1*	$3,800	$0	$3,800
CENERGY PROVOST 7-26-35-10	($259)	$0	($259)
PAR ET AL MEDHAT 8-9-9-7	$1,191	$0	$1,191
PAR ET AL MEDHAT 16-10-9-7	$1,191	$0	$1,191

KOH ET AL TABER 5-28-9-16	$4,962	($3,749)	$1,213
BARDINE PIONEER CLIVE 8-24-39-24	$500	($5,304)	($4,804)
WPO WAINWRIGHT 14-9-44-5	$2,423	($2,584)	($161)
BEAVER OILS #1	$682,701	$0	$682,701
SENORA WESCENT CASTOR 10-13-38-15	$2,515	($3,099)	($584)
MVA ET AL FERRIER 7-28-41-8	$3,130	$0	$3,130
MVA ET AL CRYSTAL 11-5-45-3	$16,526	($5,700)	$10,826
GNOL HAMCOR PROVOST 4-6-35-10	$151,325	($4,631)	$146,694
APACHE HAMIL 4-7-35-10	$8,112	$0	$8,112
APACHE HAMIL 10-7-35-10	$13,407	$0	$13,407
GNOL HAMCOR PROVOST WW 10-7-35-10	$15,578	($2,410)	$13,168
APACHE HB HAMIL 10-8-35-10	$74,189	($595)	$73,594
GNOL PROVOST 10-9-35-10	$8,647	$0	$8,647
GNOL HAMCOR PROVOST 4-12-35-11	$5,428	$0	$5,428
APACHE HAMIL 10-12-35-11	$12,152	$0	$12,152
CIGOL APACHE PROVOST 4-13-35-11	$4,777	$0	$4,777
APACHE HAMIL 10-13-35-11	$12,031	$0	$12,031
CIGOL APACHE PROVOST 4-24-35-11	$22,852	$0	$22,852
CIGOL APACHE PROVOST 4-25-35-11	$17,782	$0	$17,782
PETHELEN WINTERH 1-1-24-16	$23,661	$0	$23,661
PETHELEN ET AL WINTERH 13-1-24-16	$111,154	($935)	$110,219
ACME NO. 2	$63,488	$0	$63,488
LLOYDMINSTER OIL PRODUCERS NO. 1	$45,946	$0	$45,946
SHAW PETROLEUMS #1	$58,725	$0	$58,725
PETHELEN ET AL WILLGR 7-16-43-7	$77,929	($5,931)	$71,998
JOFFRE ET AL SKARO 11-16-57-19	$16,393	$0	$16,393
JOFFRE MORINVILLE 7-30-54-26	$480	$0	$480
PETHELEN ET AL LEDUC 13-32-48-25	$12,474	$0	$12,474
PETHELEN ET AL LEDUC 14-32-48-25	$12,786	$0	$12,786
CORON ET AL BATTLE NORTH 6-24-46-20	$5,700	$0	$5,700
ARMSTRONG ET AL SUNSET 4-24-69-19	$83,631	($500)	$83,131
ARMSTRONG ET AL SUNSET 4-35-69-19	$58,649	($500)	$58,149
ARMSTRONG ET AL SIPELK 1-36-69-19	$96,835	($13,403)	$83,432
ICOR ET AL HOOLE 6-1-80-24	$10,993	($200)	$10,793
ICOR ET AL PEERLESS 4-23-79-23	$11,278	($200)	$11,078
ICOR ET AL HOOLE 11-23-79-23	$11,286	($200)	$11,086
ICOR ET AL PELICAN 1-27-79-23	$11,205	($200)	$11,005
ICOR ET AL HOOLE 12-1-80-24	$11,158	($200)	$10,958
ICOR ET AL HOOLE 16-1-80-24	$11,258	($200)	$11,058

ICOR ET AL HOOLE 1-3-80-23	$15,720	($500)	$15,220
ICOR ET AL HOOLE 10-3-80-23	$15,917	($500)	$15,417
ICOR ET AL HOOLE 16-3-80-23	$17,288	($650)	$16,638
DICORE ET AL HOOLE 8-1-80-24	$10,600	($200)	$10,400
DICORE ET AL HOOLE 11-2-80-24	$18,220	($659)	$17,561
Unallocated Expenditures	$15,212	$0	$15,212
Total	$1,918,047	($53,830)	$1,864,217

NOTE: Expenditures included maintainance, abandonment operations and a surface reclamation pilot project. Average abandonment cost: $45 500.

List of Wells for which Cost Re-imbursements were made in 1995/96

APPLICANT	Well	Defunct Working Interest	Amount
Ranchman's Resources Ltd.	100/06-11-19-03 W5M/02	Joffre Oils Ltd.	$ 13,078.99
Ranchman's Resources Ltd.	100/06-11-19-03 W5M/02	New Frontier Petroleum Inc.	$ 799.13
Ranchman's Resources Ltd.	100/07-10-19-03 W5M/00	Joffre Oils Ltd.	$ 2,496.00
Pensionfund Energy Resources Limited	100/16-12-037-02W5M/00	Joffre Oils Ltd.	$ 23,408.14
Danoil Energy Ltd.	100/15-25-041-05W5M/00	NSM Resources Ltd.	$ 3,500.00
Alberta Oil and Gas Limited	100/09-22-063-15W5M/02	Trapper Resources Ltd.	$ 5,071.74
Mobil Oil Canada	100/06-30-039-02W5M/00	Cheyenne Resources Ltd.	$ 6,642.00
Wascana Energy Inc.	100/11-35-072-20W4M/00	Cavalier Energy Ltd.	$ 934.10
Wascana Energy Inc.	100/11-35-072-20W4M/00	Joffree Resources Ltd.	$ 8,380.88
Koch Exploration Canada Inc.	100/11-02-001-11W4M/00	Fulton Producing Company	$ 5,121.00
Pero Development Group Inc.	100/06-14-003-05W5M/00	Shannon Environmental Ltd.	$ 10,350.31
Anderson Exploration Ltd.	100/07-05-048-15W4M/00	Phoenix Resources Company	$ 182,176.70
			$ 261,958.99

Average abandonment cost: $65 500. Actual well abandonment expenditures for wells which claims were made totalled some $655 000.

List of Companies with Outstanding Balances for the 1995 Abandonment Fund Levy at 28 March 1996

Licensee	Amount
1 31957 Alberta Ltd.	$ 68.75
2 623396 Ontario Limited	$ 68.75
3 Argus Resources	$ 206.25
4 Ascension Energy Corporation	$ 618.75
5 Canadian Sales & Manufacturing Company Ltd.	$ 137.50
6 Commonwealth Hyddrocarbons	$ 68.75
7 Compadre Oil Corporation	$ 206.25
8 Linden Explorations Inc.	$ 68.75
9 Rimby Hydrocarbons Inc.	$ 275.00
10 South Alberta Energy Corp.	$ 618.75
11 Tandara Holdings Ltd.	$ 68.75
Total	$ 2,406.25

Note: These outstanding balances are not reflected in the Schedule of Assets, Liabilities and Fund Balance located in Appendix 2 because an allowance for doubtful accounts has been established.

Appendix 4 1995/96 ABANDONMENT FUND ANNUAL REPORT

1996/97 Program Budget and Objectives

The FAC approved a budget of $4 035 000 in March 1996 for fiscal 1996/97 as shown in the table below. 1995/96 budget and expenditures are also shown for comparative purposes. While the FAC approved the budget for the purpose of annual levy, it decided not to proceed with operations related to pipeline or facility abandonment or site reclamation until the recommendations of the FAC Orphan Facilities, Pipelines and Reclamation Subcommittee were considered.

No.	Budget Component	1995-96 Budget	1996-97 Budget
1.0	Abandonment Operations	$ 2 720 000	$3 320 000
	Well Abandonments - 40	$ 1 200 000	$ 1 200 000
	Associated Pipelines	$ 120 000	$120 000
	Battery Decommissioning - 5	$200 000	$200 000
	Site Reclamation - 60 sites	$ 1 200 000	$1 800 000
2.0	WIO Claims	$250 000	$ 500 000
3.0	WIO Search	$50 000	$50 000
4.0	FAC / PRG Activities	$ 20 000	$20 000
5.0	Care and Custody	$ 85 000	$85 000
6.0	Cost Recovery Activities	$ 100 000	$ 25 000
7.0	Build Up Fund Reserve	$ 0	$ 0
8.0	Insurance	$ 30 000	$30 000
9.0	Bad Debt	$ 25 000	$ 5 000
	TOTAL	$ 3 280 000	$4 035 000

The proposed budget of $ 4 035 000 represents a 23% increase over the 1994-95 budget amount of $ 3 280 000

The following are objectives for 1996/97:

- Conclude the activities of the Orphan Facility, Pipeline and Reclamation Subcommittee, including the identification of required regulatory changes, if any.
- Finalize and implement complimentary regulations for legislative changes encacted by Bill 5.
- Process cost order and cost re-imbursement applications recieved.
- Co-ordinate and utilize available enforcement tools as appropriate to protect the Fund and ensure a level playing field through compliance with the well licence transfer requirements.
- Eliminate backlog of WIO searches for wells licenced to dead companies; forward same to PRG for consideration.
- Review PRG scope to increase emphasis to decisions about cost recovery.
- Process similar levels of well licence transfer applications and corporate profile reviews.
- Finalize well licence transfer guide.
- Streamline abandonment security deposit process to eliminate installment payments.
- Implement program to review wells suspended longer than 10 years.
- Assess a $90.00 / well 1996 Abandonment Fund Levy against inactive wells.
- Abandon approximately 40 orphan wells.
- Provide ongoing care and custody at 8 orphan wells.
- Initiate cost recovery proceedings for wells abandoned, where appropriate.
- Assess implications of energy trust funds to the Fund.
- Establish a Memorandum of Understanding with AEP regarding proactive enforcement to improve protection to the Fund.

- Review staff resource requirements for Fund protection activities.

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